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In The
Supreme Court of the United States

PHILLIP JACKSON
and
PMJ FAMILY LIMITED PARTNERSHIP,
Petitioners,

v.

GLENAYRE ELECTRONICS, INC.,
Respondent.

ON PETITION FOR WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR WRIT OF CERTIORARI

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QUESTIONS PRESENTED FOR REVIEW

1.) Whether a manufacturer found to directly infringe a patent may also be liable for indirect infringement

2.) Whether a patentee receiving a judgment for infringement against a manufacturer has received full compensation for infringement in the absence of a judicial determination of the total amount of damages available from all joint-tort feasors.

3.) Whether additional liability for the infringing use or resale of a patented invention is independent of whether the infringing manufacturer has already paid the judgment based on its own infringing sales.

LIST OF PARTIES

The Parties to this action are:

Defendants: Phillip Jackson and
PMJ Family Limited Partnership

Plaintiff: Glenayre Electronics, Inc.

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www.ampoltel.com/telecom-patents.htm, citing U.S. Patent and Trademark Office, Patent Counts by Class by Year, January 1977 - December 2003, Telecommunications Classes 370, 375, 379 and 455 (March 2004) 16

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The opinion of the United States Court of Appeals for the Federal Circuit, filed on April 12, 2006, is reported at *Glenayre v. Jackson*, 443 F.3d 851 (Fed. Ct. App., 2006) (Appendix, 1a). The Order of the Federal Circuit Court of Appeals denying Jackson's Petition for Rehearing and Petition for Rehearing En Banc, filed on June 29, 2004, is reported at *Jackson v. Glenayre*, 2006 U.S. App. LEXIS 14776 (Fed. Cir. June 9, 2006) (Appendix, 109a).

The memorandum opinion and order of the United States District Court for the Northern District of Illinois, Eastern Division, dated June 29, 2004, wherein the Court denied Jackson's motion to set trial on issues that remained in the case is reported at *Glenayre v. Jackson*, No. 02 CV 256 (N.D. Ill., June 29, 2004) (Appendix, 69a).

JURISDICTION

On January 10, 2002, Plaintiff, Glenayre, brought suit against the Defendant, Jackson, seeking a declaratory judgment that Glenayre did not infringe Jackson's patent, no 4,596,900. Jackson filed an amended counterclaim for infringement against Glenayre. On July 22, 2003, the United States District Court for the Northern District of Illinois entered a judgment after trial in favor of Jackson and against Glenayre.

Jackson filed a motion to set trial on remaining issues on May 21, 2004. The District

Court denied that Motion and dismissed the action on June 29, 2004. Jackson appealed that order to the United States Court of Appeals for the Federal Circuit.

On April 11, 2006, the United States Court of Appeals, issued an order affirming the District Court's order dismissing the action. The United States Court of Appeals for the Federal Circuit entered an order denying Jackson's petition for rehearing and petition for rehearing en banc on June 9, 2006.

The jurisdiction of this Court to review the decision of the Federal Circuit Court of Appeals decision is invoked under 28 U.S.C. § 1254(1).

CONSTITUTIONAL PROVISIONS, STATUTES AND POLICIES AT ISSUE

35 U.S.C. § 271.

(a) Except as otherwise provided in this title, whoever without authority makes, uses, offers to sell, or sells any patented invention, within the United States or imports into the United States any patented invention during the term of the patent thereof, infringes the patent.

(b) Whoever actively induces infringement of a patent shall be liable as an infringer.

(c) Whoever offers to sell or sells within the United States or imports into the United States a component of a patented machine, manufacture,

combination or composition, or a material or apparatus for use in practicing a patented process, constituting a material part of the invention, knowing the same to be especially made or especially adapted for use in an infringement of such patent, and not a staple article or commodity of commerce suitable for substantial noninfringing use, shall be liable as a contributory infringer.

STATEMENT OF THE CASE

A. District Court Proceedings

The patentee, Phillip Jackson, is the owner of patent number 4,596,900. Jackson filed a patent infringement lawsuit pursuant to 35 U.S.C. § 271 against telephone service providers using a product manufactured and sold by Glenayre. Glenayre was not named as a defendant in that suit. Glenayre then filed a separate declaratory judgment suit against Jackson in the United States Court for the Northern District of Illinois, No. 02 CV 256. Jackson challenged Glenayre's standing to maintain a declaratory judgment action. In response, Glenayre argued that Glenayre was "the real party in interest, rather than [having] a multitude of cases against its customers." The district court stayed the customer suits pending resolution of the declaratory judgment action.

Jackson filed several counterclaims in Glenayre's declaratory judgment suit. Jurisdiction for that district court suit was proper under 28 U.S.C. § 1331. Jackson initially filed a counterclaim

against Glenayre for indirect infringement, and against several of Glenayre's customers, both named and unnamed, for direct infringement. The District Court first enjoined the counterclaims against the named customers. The Court then stayed the counterclaim for indirect infringement against Glenayre. The Court stayed the indirect infringement counterclaim against Glenayre on the basis that "Glenayre's liability as an alleged contributory infringer/inducer depends, as a matter of law, on the logically prior determination of liability against one or more direct infringers (i.e. Glenayre's customers)." *Glenayre v. Jackson*, No. 02 CV 256, slip op. at 2 (N.D. Ill. September 27, 2002) (Appendix, 103a). The district court explained that "**the question of the measure of damages** against Glenayre as an alleged contributory infringer/inducer will not present itself until final judgment is rendered in this case." (Emphasis added) *Id.*

Jackson then filed an amended counterclaim adding a claim against Glenayre for direct infringement. The district court conducted a trial limited solely to Glenayre's alleged direct infringement. In that trial, the jury was specifically instructed only on issues relating to whether Glenayre directly infringed the patent.

Jackson received a jury verdict of $12 million based solely on Glenayre's direct infringement. Glenayre filed a Motion for JMOL or in the alternative a remittitur. Glenayre argued that a remittitur was appropriate because the $12 million verdict was unsupported by the evidence. Glenayre

contended that damages should be remitted because the Court could not properly have considered any damages flowing from the customers' use of the product, because "claims related to the customers' use of the MVP have been stayed." Glenayre argued that the Court could only consider damages based on Glenayre's own sales, and not the sales of its customers.

The District Court agreed with Glenayre that the jury could not consider any damages flowing from the stayed claims involving Glenayre's customers' use of the product. The District Court remitted damages from $12 million to $2,650,000. In arriving at the remitted judgment, the District Court only used the amount of Glenayre's sales of the products during the relevant period of time. The District Court refused to consider any amounts relating to the customers' use of the product. Instead, the District Court specifically found that Glenayre's own sales amounted to $40 million during the relevant period. The District Court then multiplied that number by an assumed 6% royalty rate, and added a lump sum of $250,000. This ultimate number, according to the Court, was the highest possible royalty rate the jury could have awarded based only on Glenayre's sales, "**consistent with the relevant evidence before them...**" (Emphasis added) *Glenayre*, No. 02 CV 256, slip op at 17 (N.D. Ill. July 8, 2003) (Appendix, 81a). Evidence of other royalties or total sales figures to apply those royalties to was excluded from both the trial and the calculation of the remittitur.

The District Court's decision to exclude damages flowing from the customer sales was consistent with its prior decision to stay those issues pending a first trial to determine whether there was direct infringement, and then holding a second trial if, in fact, direct infringement against Glenayre was found. On that basis, Jackson accepted the remittitur to damages based solely on Glenayre's sales. The District Court then entered a judgment order specifically stating that "[b]ecause additional claims, dependent on the finality and affirmance of the patent infringement against Glenayre, remain for adjudication," the Court was certifying the judgment under Rule 54(b). *Glenayre*, (N.D. Ill. July 22, 2003) (Appendix, 76a).

After the judgment of direct infringement against Glenayre was affirmed on appeal, Jackson filed a motion to set trail on the remaining issue of indirect infringement. However, the District Court at that time denied that motion, and dismissed the remaining claims for indirect infringement against Glenayre. The District Court found that damages for indirect infringement and direct infringement were the same, even though the damages resulting from Glenayre's customers' use had not been litigated. The District Court specifically held that Jackson had been "completely compensated for direct infringement" and that "[o]nce this had occurred, there is nothing more that is owed. Contributory and inducing infringement are just other sides of the same coin." *Glenayre*, (N.D. Ill. May 21, 2004) (Appendix, 73a).

B. Appellate Court Proceedings

A majority of the United States Court of Appeals for the Federal Circuit affirmed the district court's dismissal of Jackson's unlitiagated counterclaims in an order dated June 29, 2004. The majority concluded that Jackson had been compensated for damages flowing from Glenayre's customers' use of the products, despite the fact that the District Court never even considered that element of damage and Jackson never accepted the remitted judgment as his full compensation.

The majority panel's decision also concluded that the District Court's remitted judgment intended to include damages based on not only Glenayre's sales of the infringing products but also included damages flowing from Glenayre's customers' sales. The majority found that in the event the remittitur did not include compensation for the users' sales it would have reversed the District Court. The Federal Court of Appeals specifically stated:

> We do not read the district court's opinion to have granted the remittitur in order to exclude damages flowing from customer sales. Clearly, if that had been the district court's reasoning, the situation would be quite different."

(Majority Opinion, Appendix, 52a).

The Court of Appeals' dissent establishes, however, that every action in this case (except the District Court's after-the-fact dismissal of Jackson's

indirect infringement claim, a dismissal that occurred approximately two (2) years after the District Court set the procedural plan in place) points to the conclusion that the District Court's remittitur **did** exclude damages flowing from the customer's sales. The dissent noted that the opinion that the District Court did not consider damages flowing from the customers' sales is not just held by Jackson, but is also shared by Glenayre and the District Court itself. Glenayre's Motion for JMOL or in the alternative a remittitur argued that the jury's damage award was excessive because "claims related to the customers' use of the MVP have been stayed." (Dissent, Appendix, 56a) The dissent found that the District Court clearly agreed with Glenayre that the Court could not consider any damages flowing from the customers' use of the product when it based its remitted damage number solely on Glenayre's sales (calculating the damages solely by reference to Glenayre's $40 million in sales) and did not consider damages flowing from the customers' sales.

The Court of Appeals' dissent also shows that the District Court's decision to exclude damages flowing from the customer sales is consistent with its prior rulings. The District Court previously stayed issues of Glenayre's indirect infringement and stayed all discovery and consideration of damages for any indirect infringement based on Glenayre's customers' sales. Contrary to the majority opinion, the District Court could not have ruled on the issue of damages for Glenayre's indirect infringement because the stay of that claim was never lifted. It is inconceivable that the District Court would rule, *sub*

silencio, on claims which were stayed and on which no discovery was conducted or permitted.

The panel majority of the Federal Court of Appeals erroneously assumed that the District Court considered the customers' use in its calculation of remitted damages when the District Court entered its remitted damage judgment, because the District Court referred to "unbounded" rights to the underlying patents that were the subject of prior license agreements. The District Court only stated, however, that the license agreement that formed the basis for the remitted judgment related to "unbounded" rights to all claims contained within the particular patent licensed by Glenayre, whereas in this case the trial was limited solely to direct infringement of two claims in Jackson's patent in suit. *Glenayre*, (N.D. Ill July 8, 2003 at page 15) (Appendix, 98a). There is no basis in the record for the majority's assertion that the District Court found that the jury could not have awarded higher damages if they had been allowed to consider the customer's sales. By law a hypothetical negotiation in which the actual eventual customer sales were known should have been considered. The referenced license was agreed to more than a decade earlier when the cellular industry did not have the profit by resellers that it did at the time of trial. Instead, as the dissent correctly observed, the District Court did not make any findings and created no record on that factual question.

The dissent noted that the District Court specifically acknowledged that the trial and the resulting remitted damages judgment related only to

Glenayre's direct infringement and that the Court did not consider damages based on the customers' use of the products. Said the District Court: "Here the direct infringement consisted of the manufacture and sale of Glenayre's MVP products to others..." *Glenayre*, (N.D. Ill. May 21, 2004) (Appendix, 73a). In its remittitur order, the District Court stated that the damage award must be at least equal a reasonable royalty for the infringing use "by the infringer." (Appendix, 96a). At no time did the District Court ever state or suggest that the damage award included consideration of the appropriate royalty for Glenayre's customers' infringing application or use. The majority Court of Appeals claims that customer sales were included because of statements made by Jackson's lawyer in closing arguments. This could not have been considered evidence, though, as the jury was rightly instructed not to consider it as evidence, and the District Court does not mention its consideration in the remititur calculation. Glenayre also argued to the contrary in their argument to reduce the verdict for the remititur.

The dissenting Court of Appeals justice noted that the District Court not considering the customers' sales in entering judgment is consistent with the District Court's decision to enter the remitted judgment against Glenayre pursuant to Rule 54(b), in recognition of the existence of additional pending claims. If the entry of the Rule 54(b) judgment did not amount to a promise to Jackson of a second trial, as the majority asserted, it clearly confirms the District Court's belief that there were additional claims left to be resolved. If, as the

majority suggests, the District Court intended the remitted judgment to constitute Jackson's full compensation, then there would have been no reason to preserve the right to pursue additional claims by entering the Rule 54(b) order. Given the procedural decisions and representations leading up to the remittitur order, Jackson could not have understood his acceptance of that 54(b) judgment as waiving his right to pursue his stayed claims for indirect infringement.

The Federal Circuit Court of Appeals then denied Jackson's Petition for Rehearing and Petition for Rehearing En Banc on June 9, 2006 after requesting a response by Glenayre.

REASONS WHY CERTIORARI SHOULD BE GRANTED

REVIEW IS WARRANTED BECAUSE THE MAJORITY PANEL OF THE FEDERAL CIRCUIT COURT OF APPEAL'S RULING THAT THE PAYMENT OF DAMAGES BY AN INFRINGING MANUFACTURER INCLUDES "FULL RIGHTS" AND LICENSE FOR ENSUING USES AND USERS "AS A MATTER OF LAW" IS CONTRARY TO ESTABLISHED SUPREME COURT PRECEDENT

The majority opinion of the Federal Circuit Court of Appeals contradicts Supreme Court precedent by holding that "as a matter of law" payment for damages for infringing manufacture includes "full rights" and license for ensuing uses and users. (Majority opinion, Appendix, 34a). Well

established Supreme Court precedent holds that users and resellers who acquire and use a patented invention from an infringing manufacturer can incur liability for infringement and additional damages independent of the damages incurred by reason of the manufacturer's sale of the infringing manufacture.

This Court has consistently held that an implied license to use a product does not arise unless the patentee has received full compensation. This Court has also held that a patentee has not received full compensation until there has been an adjudication of all the potential damages arising out of the infringing sale and use of the patent. This Court, in fact, established a formula to determine whether a patentee has been fully compensated for infringement, thus extending an implied license to those who use a patented invention. The issue of full compensation is a question of fact, not of law. The District Court here did not allow the introduction of evidence, did not consider and certainly did not resolve the factual issue of whether Jackson received full compensation for the infringement of his patent.

This Court in *Aro II* remanded that case to determine whether a patentee had received full compensation from a direct infringer. In *Aro II,* the manufacturer of the infringing product (Ford) obtained a release of claims against it and its customers. The release was not a license to use the patented product. Aro, the supplier of replacement tops, was held to be a contributory infringer with respect to the infringing use of the patented combination by Ford's customers. With respect to

the issue of damages for that contributory infringement, which claim was not released, the *Aro II* court specifically held that it was necessary to determine whether the release fee paid by Ford provided "full payment for the infringing use." *Aro II*, 377 U.S at 370. The *Aro II* Court accordingly remanded the case to resolve that factual issue. In remanding the case for a factual determination of full compensation, the Court held that whether the patentee has been fully compensated for infringement is always a question of fact.

The *Aro II* Court devised a formula that a district court must apply in determining whether the patentee has received full compensation. The *Aro II* Court stated that in order to determine whether a patentee has received full compensation from all infringers a comparison must be made between the potential damages available from all potentially liable parties and the amounts actually received by the patentee. If the patentee has not received all compensation to which he is entitled, then the patentee has not been fully compensated. The patentee may then receive the remaining compensation from any remaining infringer. *Aro II*, 377 U.S. at 480. The *Aro II* Court did not hold, as the majority states, that there could never be additional liability of the contributory infringer once there is payment to the patentee for direct infringement.

As discussed below, the formula for deciding full compensation required in *Aro II* has never been applied to Jackson's case. Instead Jackson has not received the consideration of the total amount of

damages that he is entitled under the law, since the stayed issues relating to Glenayre's customers' infringing use of the patent have never been decided. Indeed, unlike in *Aro II*, where the patentee had received a payment from the manufacturer for its customer's infringing use, in this case Jackson has received nothing fro the infringing use of his patent by Glenayre's customers. Accordingly, the District Court's refusal to permit Jackson to pursue his claim for contributory infringement with respect to that infringing use flies in the face of this Court's admonition that "unauthorized use, without more, constitutes infringement." *Aro II*, 377 U.S. at 467.

The majority also misinterpreted and incorrectly applied the Supreme Court's opinion in *Birdsell v. Shaliol*, 112 U.S. 485 (1894). The majority stated that the *Birdsell* opinion "suggests" that the recovery of actual damages by the maker and seller of a product bars a suit against a buyer and user of that same product. (Majority opinion Appendix, 30a). *Birdsell* did not so hold. The Court in *Birdsell* held that a bar against further infringement proceedings would arise only in the event that the patentee has received full compensation for the infringement of its patent. The *Birdsell* Court specifically held that such a bar arises "only ...when actual damages have been paid, and upon the theory that the plaintiff has been deprived of the same property by the acts of two wrongdoers, and has received full compensation from one of them." *Birdsell*, 112 U.S. at 489. The question of whether Jackson has received "full compensation from one of them" as the dissent notes has not been

tried; it remains unlitigated in the severed counterclaims. (Dissent Appendix, 62a).

The Federal Circuit Court of Appeals majority's decision that "as a matter of law" payment of damages by a manufacturer of a product bars subsequent actions against a user or indirect infringer is also contrary to the Supreme Court's decision in *Union Tool Co. v. Wilson*, 259 U.S. 107 (1922). The *Union Tool* Court applied *Birdsell* to the sale of spare parts for machines that had been sold before the trial court found them to be infringing. The Court observed that the patentee had not been compensated for use of these machines and thus the manufacture's sale of repair parts was in contempt of the injunction; the Court explained that since the patentee has not "received any compensation whatever for the infringement by use of these machines," the continuing use was unauthorized. *Union Tool*, 259 U.S. at 113. The Court found no "implied license" to use the infringing machines, as the majority here incorrectly concludes.

The Federal Circuit Court of Appeals majority is incorrect in ruling that "as a matter of law" the payment of damages by an infringing manufacturer includes "full rights" and license for ensuing uses and users. (Majority opinion Appendix, 34a). Whether additional liability exists for the infringing use or resale of a patented invention is independent of whether the infringing manufacturer has already paid the judgment based on its own infringing sales. Otherwise, an infringing manufacturer could always preclude a patentee from recovering for its customers' infringing use or resale of a product

simply by intervening with a declaratory judgment action related only to the manufacturer's infringing sales.

THE FEDERAL COURT OF APPEAL'S DECISION ALLOWING CUSTOMERS OF A MANUFACTURER TO ESCAPE LIABILITY FOR PATENT INFRINGEMENT PRESENTS AN ISSUE OF EXCEPTIONAL NATIONAL SIGNIFICANCE.

There are 216,792,764 Estimated Current US Wireless Subscribers per the Cellular Telecommunications & Internet Association. In 1993 there were approximately 10,391 telecommunication patents, increasing exponentially.[1]

This ruling applies directly to this industry and others where the hardware is sold for little or even less than its cost (note costs to users of cellular handsets), and also applies to other industries who could adopt such a model for its ability to avoid laws protecting and encouraging innovations, and allow copying. The District Court and Federal Court of Appeals' decisions virtually eliminate the concept of maintaining an action based the infringing "use" of a product. The District Court, and subsequently the Federal Court of Appeals, sanctioned a scenario of mandating that a patentee base patent infringement damages only on the manufacturer's sales of an

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[1] www.ampoltel.com/telecom-patents.htm citing U.S. Patent and Trademark Office, Patent Counts by Class by Year, January 1977 - December 2003, Telecommunications Classes 370, 375, 379 and 455, (March 2004).

infringing device, and not on the manufacturer's customers' use or resale of the infringing product. This ruling would virtually preclude patentees from being allowed to sue the ultimate customers or users of a product, when a manufacturer files an action for non-infringement against the patentee.

In addition, both the District Court and the Federal Court of Appeals' rulings provide a roadmap for a manufacturer to insulate itself from any significant patent infringement damages claims. For example, a manufacturer may now sell a product to another, separate entity for a relatively modest sum and therefore have very limited liability for possible infringements. The second entity can then re-sell the product for a much higher margin. Under the District Court and Federal Court of Appeals' rulings, full compensation is irrefutably presumed once a patentee receives a judgment for direct patent infringement against a manufacture of a product, regardless of whether the patentee has been precluded from pursuing discovery or submitting evidence of the subsequent infringing use. The District Courts' ruling thus only allows a patentee to base damages on the initial sale of the product, and not on the profits made on the subsequent sale by the reseller of the product. By limiting damages to only those stemming from the manufacturer's sale of the patented product, without any consideration of the subsequent infringing use, that ruling eliminates the concept of a judicial determination of "full compensation" for patent infringement. Such is not, and should not be, the law.

Respectfully Submitted,

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